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THE WORLD ECONOMY IN 1993: AN UPDATE

Note by the Secretary-General*

The virtual stagnation in the world economy that began in 1990 persists today, with little prospect of significant improvement before the end of the year. World output is likely to grow by only 1 per cent in 1993 and around 2.5 per cent in 1994 (see table 1). Both figures are downward revisions of projections in the World Economic Survey, 1993.

Continuing weakness of the developed market economies, which account for over 70 per cent of world output, and serious difficulties of transition in Eastern Europe and the successor States of the Soviet Union occupy much of the world economic scene in 1993 as they have over the past few years. In the developed market economies, recovery has proved elusive (see figure I), unemployment has increased sharply, business and consumer confidence remain stuck at unusually low levels and there is widely shared doubt about the likelihood that these economies will generate sufficient growth to create jobs and resources to meet pressing social needs. In the economies in transition, the cumulative decline in output since 1990 has been of the order of 30 per cent and unemployment has risen to levels which are extraordinarily high by the historical standards of these countries. In other areas of the world, particularly in Africa, living standards continue to slide.

The above picture contrasts sharply with robust growth in a large number of developing countries, some of which are among the poorest. This continues a trend of recent years in which countries where per capita income has been improving accounted for 60 per cent of the population of the developing countries in 1991 and for 80 per cent in 1992.

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* This note updates the assessment of the world economy contained in the World Economic Survey, 1993 (United Nations publication, Sales No. E.93.II.C.1), issued in June 1993, and is based on information available as at 30 September 1993.

Table 1. Growth of the world economy, 1989-1994

(Annual percentage change)

					1993		1994	
	1989	1990	1991	1992	WES 1993 projection	Current projection	WES 1993 projection	Current projection
World output	3.2	1.7	0.3	0.7	1½	1	3	2½
Developed market economies	3.3	2.5	0.8	1.6	1½	1	3	2½
Economies in transition	2.1	-6.3	-9.0	-16.8	-10	-10	0	0
Developing countries	3.5	3.4	3.4	4.9	5	5½	5	5
World trade	7.8	5.1	3.6	4.5	6	4	6	6

Source: UN/DESIPA. Figures for 1993 and 1994 are forecasts based on Project LINK.

While world output has barely been growing, world trade appears to be increasing relatively fast but at a slower rate than in 1992. The growth of trade is likely to be around 4 per cent in 1993, compared with the 5.8 per cent increase projected in the Survey. The continued dynamism of a number of developing economies, especially in South and East Asia and China, has kept the growth of trade from declining even more, while the persistent weakness in the developed market economies, especially in Western Europe, has been the major factor holding back the volume of trade.

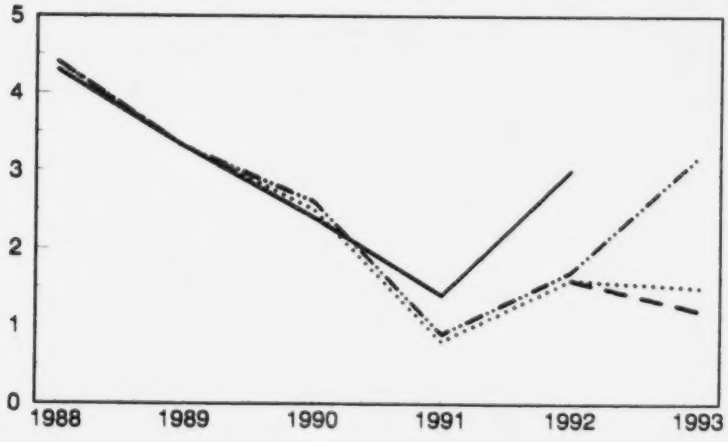
Weak world demand contributed to a further though relatively small decline in commodity prices. For the first six months of the year prices were 3 per cent lower than in the corresponding period of 1992. In terms of prices of manufactured exports of industrialized countries, the decline has been around 1 per cent. Weak demand and oversupply reduced oil prices to their lowest levels since 1989 (see table A.VIII), with the average for 1993 expected to fall slightly below that projected earlier.

One of the important developments affecting developing countries in recent years has been a dramatic change in the direction of transfer of financial resources. After almost a decade of outflow, capital-importing developing countries received a net transfer of financial resources, which reached around $21 billion in 1992. Most of it has been private capital. Present indications are that the inflow is being sustained in 1993, in particular in Latin America.

As emphasized in the Survey, human misery, localized and brought on mainly by political turmoil and military conflict, overshadowed economic considerations in many areas of the world. While widespread misery continues, two developments in recent months have brightened prospects of peace and prosperity, and their implications reach far beyond their present geography: a further step to a multiracial society in South Africa and the more dramatic event of a peace agreement on the Israeli-Palestinian question, signed in September.

Figure I. Recovery postponed: estimates of GDP growth of developed market economies, 1988-1993

(Percentage)



As seen in April 1991 ——————

As seen in April 1992 —·—·—

As seen in April 1993 .....

As seen in September 1993 — — —

Source: UN/DESIPA.

DEVELOPED MARKET ECONOMIES: PERSISTENT SLUGGISHNESS

The developed market economies are projected to grow 1 per cent in 1993, which is even weaker than in 1992. It is also a downward revision of the growth forecast made in the World Economic Survey, 1993. The forecasts for France, Germany and Japan were revised downwards the most, by about 1 percentage point each; in none of the main economies was the forecast revised upwards. For the 15 smaller developed market economies, the 1993 forecast was also revised downwards by almost 1 percentage point, although the forecast did not worsen in each separate country.

Sharply rising unemployment has become the most critical policy issue in the developed market economies. However, the prolonged period of slow growth or outright recession, which started in 1990, and persistent labour market slack have brought inflation to its lowest levels since the 1960s (see table A.VI).

The overall picture of lacklustre growth is built up from a highly divergent pattern of performance among the major economies, which are at different phases of their business cycles. The United States, Canada and the United Kingdom, among the seven largest industrialized economies, have been in the recovery phase and have grown for four or more quarters. The forecasts for these economies have been revised the least, although they did not escape the downward revisions either. In some of the other large economies, the economic turnaround is more recent, and in still other countries, the recession is at best bottoming out. In Germany, whose monetary policy has served as an anchor for policy in most of Europe, the recessionary tendencies seem much stronger than they did in June. When output fell in Japan in the second quarter, the prospect of a "double dip" recession had to be confronted.

The United States recovery, although modest, is likely to be sustained but unlikely to adequately reduce unemployment. The recovery has been driven by low interest rates as well as by the returning competitive and financial strength of American corporations. In Canada, the original concentration of growth in export industries has gradually spread to other sectors including consumer spending.

After a rebound in the first quarter, the Japanese economy resumed the contraction of the previous three quarters, suggesting that the current downturn may be longer than expected. The weaknesses in the business sector, which is working its way out of the excesses of the 1980s investment boom, are being further aggravated by the rising yen. A series of fiscal stimuli introduced over the past year have so far proved inadequate to boost domestic demand.

In Western Europe, the recession deepened in early 1993. Industrial output declined rapidly in France, Germany and some other countries (see table A.I). The decline may ease over the second half, but a significant improvement is unlikely before the end of the year. Overall policy stances remain restrictive, making recessions in individual countries more severe than they might be otherwise. The members of the Exchange Rate Mechanism (ERM) of the European Community have failed to make use of the opportunity to cut interest rates sharply in the aftermath of the July/August currency crisis which forced the widening of the fluctuation band of the system to 15 per cent on either side of the old parities. The United Kingdom is the only country in the region where a

recovery is clearly under way, reflecting its earlier descent into recession and thus an earlier recovery than the rest of Europe, as well as stimulative policy.

For the developed market economies, 1993 has become the third consecutive year of growing unemployment. Furthermore, the quality of much of employment is declining. The jobless rate is likely to continue rising well into 1994, approaching a new post-war high, up from 7.4 per cent in 1992 and around 8.0 per cent in 1993. Even in Japan, unemployment may climb to almost 3.0 per cent by 1994 from 2.2 per cent in 1992. Concerns over unemployment are deepest in Europe, where more than 20 million people will be out of work. Outside Europe, unemployment is very high in Australia and Canada (see table A.V).

As discussed in the Survey, reductions in unemployment have been lagging behind output growth since the mid-1980s. The prospects for the current steep rise in joblessness to be completely reversed once the economic climate improves also remain very uncertain, a concern that policy makers expressed at the recent meeting of the Interim Committee in Washington. There have been very modest falls in unemployment so far in Australia, Canada and the United Kingdom despite the rise in output. The United States is the only country where the unemployment rate has recently fallen below the 1980s average. However, newly created jobs are disproportionately lower paid or part-time while higher paid and more secure jobs continue to be shed. Besides, the share of the jobless who become discouraged and leave the formal labour market is much higher in the United States than it is in Europe.

With the number of unemployed people in the developed market economies surpassing 30 million, up from 22.5 million in 1990, improvement of employment prospects has emerged as a central economic policy goal for the 1990s. There is a growing consensus that reducing unemployment over the long term requires better integration of macroeconomic policies and structural reforms.

Devising and implementing appropriate macroeconomic actions to promote non-inflationary growth and higher employment remains difficult, as large budget deficits leave little room for stimulus. Almost all developed economies with the important exception of Japan are facing the need for a fiscal correction. According to the Organisation for Economic Cooperation and Development (OECD), the gross public debt of its member countries may reach 66 per cent of their GDP by the end of 1993, up from 35 per cent in 1974.

In the United States, fiscal steps have been relatively mild thus far. The net impact on aggregate demand of the recently approved package aimed at cutting the budget deficit is likely to be negative, albeit slightly, beginning in 1994. However, the direct contractionary effect of a lower budget deficit may be offset by a further decline in long-term interest rates.

After abrupt price increases and a sharp slow-down of output growth in the first quarter of 1993, the United States economy seems to be returning to a path of moderate growth and subdued inflation, with consumer prices rising at an annual rate of around 3 per cent. Since the rate of inflation is not expected to ease further, the discount rate has been kept unchanged at 3 per cent since July 1992.

Japan is the only major country that still has room for an expansionary fiscal policy. Indeed, a new fiscal package was announced by the Government in September. This followed two previous mild fiscal stimuli that failed to raise economic growth.

In the midst of a growing concern over the state of the Japanese economy, the announcement of the new fiscal package was followed by a 0.75 percentage point cut in a key short-term interest rate by the Bank of Japan. The Bank had already brought official short-term interest rates to the historical low of 2.5 per cent. Even so, the money supply has been increasing only moderately since April, reflecting mainly increased funding for public works, while private credit demand remains flat. Doubt continues to be expressed whether the two new steps are sufficient to raise Japan out of recession.

Most European economies seem to be in the early stages of a major change in the balance between monetary and fiscal policies. The easing of the ERM in August paved the way for European interest rates to come down faster than before. However, Germany's partners have chosen a very cautious approach towards interest rate cuts so as to prevent their currencies from depreciating within the new version of the ERM. Following the widening of the ERM fluctuation bands, interest rates were reduced slightly in France, Portugal and Spain. Finally in September, the Bundesbank reduced key German rates by half a percentage point and several countries quickly followed suit with reductions in their own short-term rates. Outside the ERM, interest rates were cut sharply in Finland and Sweden.

In Belgium, Italy, the Netherlands and Sweden, fiscal tightening has been under way. In Germany, a sharp swing will occur in 1994, when the planned tax increase of 1.5 percentage points of GDP and spending cuts are implemented. The existing tax and spending plans will tighten British fiscal policy starting in November 1994. Spain is planning to move to a policy of fiscal restraint over the next year. In sum, in 1994 the European fiscal policy is likely to be tightened - dampening aggregate demand - by over 1 per cent of GDP.

TRANSITION ECONOMIES: CONTINUING DECLINE BUT SOME HOPEFUL SIGNALS

With four years of severe economic decline, changing approaches to policy reform and the redesign of economic and political institutions, and with national boundaries even being contested in certain cases, the revolutionary depth of the process of transition from centrally planned to market economies has become inescapably clear. Although economic information is incomplete and sometimes contradictory, there seem to be hopeful signs as well as continuing reasons for concern about the progress of economic transition. As a whole, output in the transition economies is declining in 1993 by about 10 per cent, a smaller decline than in 1992 (see table A.III). Moreover, most of the fall is accounted for by a contraction of production of about 14 per cent in the successor States of the Soviet Union.

Gross production is rising in Poland and the Czech Republic and is expected to begin to rise in Hungary and possibly Slovakia in 1994. This marks something of a departure from the forecast for Eastern Europe made just a few months ago

in the World Economic Survey, 1993. Then, Hungary had been expected to begin its growth in 1993 with stronger export earnings than are being realized, while Poland's recovery is stronger than was anticipated owing to a recovering domestic demand that is offsetting export weakness. Even in Poland, however, output has returned only to about the level of a decade earlier, while the turnaround from economic contraction has yet to begin in Bulgaria and Romania. Being located in the southern part of the region, the latter two countries continue to be affected by the crisis in the former Yugoslavia.

After a prolonged and sharp decline of output, the economic situation in most of the States of the former Soviet Union appeared to be stabilizing by mid-1993, with the rate of decline slowing. A year and a half of economic reform measures, albeit hesitant and contradictory at times, has begun to bring about certain tangible results, particularly in Russia. Industrial output there was relatively stable by mid-year, in comparison with 1992 when output was falling fast, and economic activity in the non-state sector appears to be picking up. A modest increase in non-state sector investment was recorded in the first half of 1993.

The major problems in the crucially important financial sphere that threatened to destroy Russia's economic reform in 1992 - monetary overhang, unrealistic and uncontrollable rouble exchange rates, snowballing non-payment by enterprises and an unmanageable influx of roubles from outside Russia, among others - were brought partly under control. The Federal budget deficit was brought down noticeably in the first six months of 1993. Subsidized credits for enterprises were slashed, as were most import subsidies, and interest rates for central bank credits were raised from 80 to 170 per cent.

These measures helped to bring a measure of stability to the monetary situation. Monthly inflation in Russia fell from 26 per cent in January to 20 per cent in June. Changes in currency regulation, more effective central bank intervention and an increased sophistication of internal currency markets led to a higher concentration of hard currency trading on organized exchanges and helped to stabilize the real exchange rate of the rouble.

However, policy changed again during the summer months, the growth of money accelerated and the inflation rate began to pick up. Capital flight has also been on the increase, and it is now estimated that Russia's banks and enterprises hold abroad up to $17 billion, compared with slightly over $9 billion at the beginning of 1993.

Political stalemate remains the major threat to the transition process. At the end of August, Russia's parliament rejected the President's proposal aimed at sharply limiting the budget deficit for 1993 to about 30 per cent of government expenditure. Parliament had earlier passed a budget resolution envisaging a deficit of 50 per cent of total government expenditures. The search for a political consensus on policy came to an abrupt halt in the aftermath of the extraordinary political developments of 21 September that had not run their course as of the end of September.

Elsewhere in the successor States of the Soviet Union, the three Baltic States seem to be on their way to stabilization and recovery, but chaos and turmoil prevail in many other States. Ukraine, for example, slid still deeper

into economic crisis caused in major part by the lack of a coherent and decisive economic policy. Armed conflicts in the Caucasus undermine any prospect of arresting the continuing economic decline in that region.

From a social and political perspective, moreover, the situation remains difficult in all the transition economies. At present, an estimated 6 million people are unemployed in Eastern Europe, a region that had been accustomed to very low unemployment levels. Between December 1992 and May 1993, 700,000 people were added to unemployment registries there. The burden of unemployment tends to fall more heavily on women than on men, on manual workers than on the more educated, and on the young. As in industrialized economies, improvements in employment lag behind the turnaround in production. Thus, unemployment continues to grow in Poland, albeit more slowly since the return of output growth. Rising unemployment and other social problems in the country helped the recent return to government of parties that place greater emphasis on countering the social costs of reform.

More progress has been registered on the financial side of macroeconomic adjustment. All economies in the region reduced the high and persistent inflation of recent years. Month-to-month inflation rates have fallen substantially in the Czech Republic, Slovakia and Hungary; they have also fallen in Bulgaria, Romania and Poland but are still rather high.

Implementing the structural changes embodied in the transition process requires high rates of investment, and here the East European economies, except perhaps Poland, have yet to begin to see the necessary surge in investment spending. In general, private investment - foreign and domestic - is still held back by a multitude of uncertainties concerning the medium-term outlook and by the absence of an adequate legal structure, which is necessary for a market economy to function. Privatization of State enterprises is still proving difficult. Even with the progress achieved in Hungary and Poland on this score, most large State-owned enterprises have not been privatized.

DEVELOPING COUNTRIES: A MORE VIGOROUS EXPANSION

Output in developing countries appears to be growing at about 5.5 per cent in 1993, compared with 5 per cent projected earlier. The acceleration is accounted for mainly by the very high growth in China, where policy measures to slow the economy down are only beginning to take effect. In Latin America, growth is expected to be slightly higher, mainly owing to a significant improvement in Brazil. China is expected to grow by 13 per cent in 1993 and Brazil by over 4 per cent, as against earlier projections of 11 per cent and 2 per cent respectively. In South and East Asia, growth has hovered over 5 per cent since 1991, with no marked change in trends in the region between 1992 and 1993, except that the second generation of newly industrialized economies (Indonesia, Malaysia and Thailand taken together) is back to rates of growth above 7 per cent. In Africa, economic growth in 1993 is now estimated to be at only around 2 per cent, somewhat worse than had been forecast, and not very different from the rate attained during the period 1991-1992 (see table A.IV).

LATIN AMERICA AND THE CARIBBEAN

Economic performance in Latin America and the Caribbean in the first half of 1993 converged on moderate growth and slowing inflation. The convergence is largely a result of the recovery from recession in Brazil and Peru, and the deceleration from the very high rates achieved in 1992 in the Southern Cone by Argentina and Chile. The Mexican and Venezuelan economies, especially the latter, will also slow down in 1993 as macroeconomic policies remain tight to curb inflation and contain widening current account deficits. For the year as a whole, regional output should increase by 3.5 per cent, a revision of the earlier projection of just 3 per cent and up from 2.2 per cent in 1992.

Many countries in the region are succeeding in reducing their inflation rates, continuing a three-year-old trend, Brazil again being the main exception, where a pick-up of aggregate demand and persisting uncertainty about the direction of policy have pushed the increase in consumer prices to an annualized rate above 2,000 per cent, or double the 1992 rate.

The regional current account deficit will remain large, at over $30 billion, as the appreciation of local currencies (particularly in Argentina and Mexico) and the recovery of some Latin American countries fuel imports, while moderate growth of world markets limits exports. Yet the deficit should be amply financed by the large capital inflow that the region continues to receive, for the third consecutive year. Although the inflow of external capital had slowed markedly in the second half of 1992, the flow appears to be on the rise again in 1993. In particular, in the first half of the year the value of bonds and equity placements in international capital markets reached an estimated $12.8 billion, a 60 per cent increase over the same period of 1992, with Mexico, Argentina and Brazil raising most of it. The major factors that have attracted foreign funds to the region continue to be interest rate differentials and investment opportunities created by privatizations and other recent economic reforms.

AFRICA

In Africa, output is expected to increase by 2 per cent in 1993, which is marginally higher than the drought-affected growth of 1992 but lower than the 3 per cent growth projected earlier. The lower than expected growth is mainly a result of a slow-down in northern Africa, which accounts for 50 per cent of Africa's GDP. Factors underlying the weak performance in northern Africa include a decline in agricultural output in all countries except Egypt, a second year of severe drought in Morocco and continuing political uncertainty in some countries, hitting tourism in Egypt in particular.

Political tension, policy uncertainty and civil strife have contributed to economic decline in some countries on the continent, particularly in Angola, Togo and Zaire. Sluggish demand for exports, largely related to the slow growth in Europe, has depressed growth in several African countries.

Weather conditions were in general favourable in Africa. Several countries in southern Africa have benefited from a good rainy season and the 1993 coarse grain crop of the region is forecast to be more than twice the drought-reduced

1992 harvest. However, in Botswana, Lesotho, Namibia and Swaziland output is expected to be below normal because of late or erratic rainfall and a shortage of draught animals, a delayed effect of last year's drought. In Somalia, a good harvest is expected owing to improvement in security conditions in many areas and the distribution of large quantities of seeds and implements.

Food assistance is still required for internally displaced persons, refugees, returnees and demobilized soldiers in such countries as Eritrea, Ethiopia, Liberia, Malawi, Mozambique, Rwanda, Sierra Leone, Somalia, the Sudan and Zaire. Peace agreements in Liberia and Rwanda raise growth expectations, but experience in Mozambique suggests that the recovery is likely to be slow.

The resurgence of civil war in Angola has severely affected agricultural production and food relief operations. An estimated 2 million people are vulnerable to famine before the 1994 harvest while, under current conditions, only 70 per cent of relief food requirements can be delivered.

ASIA

Developing Asia continues to lead the world in economic growth, even though some countries in the region are showing signs of weakened export growth due to slow economic recovery in industrialized countries. As in the past, a major feature of the regional performance is the very high economic growth in China and in the first and second generations of Asian newly industrialized countries.

In West Asia, output is expected to grow at about 5 per cent, somewhat lower than in 1992. Much of this growth is derived from the region's oil sector, oil production having continued to expand in Kuwait and other countries. Post-war reconstruction programmes in Kuwait and Iraq and construction activities in other countries are also helping the region to regain its growth momentum in 1993. Banking and finance activities are recovering, but budget deficits in many countries remain a concern and current account deficits continue. Loss of trade, tourism and workers' remittances following the Persian Gulf war are still causing some difficulties for the poorer countries of the region. Except in the Islamic Republic of Iran, Iraq and the Syrian Arab Republic, inflation in the oil-exporting countries remains relatively low.

South and East Asia as a whole is maintaining its growth at the 1992 rate of over 5 per cent, the same rate as projected earlier, which represents a significant deceleration from the high rates of the second half of the 1980s and the 6.4 per cent growth in 1990 but is still among the highest in the world. A variety of factors contributed to the slow-down: rising wages leading to erosion of competitiveness in some countries, import liberalization and the immediate effects of structural adjustment, infrastructural bottlenecks, and a slow-down of exports. The slow-down of economic growth was not, however, pervasive, as the second generation of newly industrialized countries maintained or returned to growth rates of over 7 per cent.

India is in its second year of a major stabilization and adjustment programme. Owing partly to a good harvest, it is expected to repeat in 1993 the 4 per cent economic growth rate of 1992. The rate of inflation has come down to an annualized rate of 6 per cent. Foreign reserves have risen to cover more

than three months of imports. The improvement in the balance of payments is the combination of good export performance and a slow-down in imports, due mainly to sluggishness in industrial activity. Despite some increase in foreign direct investment, investment activity has been slow, partly because of uncertainty about policy.

Signs of economic overheating became apparent in China during the first half of 1993, when GDP growth reached around 14 per cent while the retail price index increased by 11 per cent over the same period in 1992 and the urban cost of living index went up 14 per cent. In the same period, industrial production expanded 25 per cent. The value of fixed investment shot up 60 per cent and retail sales increased 22 per cent compared with the same period in 1992. Growth of GDP in 1993 as a whole is expected to be 13 per cent, or 2 percentage points higher than previously projected. The impact of the overheating of the economy is becoming evident in the external sector. Imports were up 23 per cent, outstripping the 4 per cent increase in exports, and a shift to a trade deficit is forecast for 1993. Efforts are being made to rein in economic expansion and inflation through credit contraction, in particular, to scale back the unsustainably high rate of industrial growth and to cool off real estate speculation. Interest rates on bank deposits have been raised by nearly 2.5 percentage points on average since mid-May 1993 and banks were asked to recall loans used for property and other potentially speculative purposes. This latest round of attempts at stabilization differs from the past in that it relies heavily on monetary leverages.

THE MULTILATERAL AGENDA

The assessment made in June in the World Economic Survey, 1993 of the major issues confronting the international economy has changed little, except that the already weak growth prospects of the developed market economies now seem even weaker. The resumption of growth in these economies remains one of the urgent needs of the international economy. Without more growth in these economies, many of the pressing social problems facing them will remain unresolved, the current pace of growth of the developing countries cannot be maintained and the full potential of the post-cold-war world will remain unrealized.

Concerted steps to activate growth in the developed economies have been repeatedly deferred in most countries partly because of a belief that recovery was around the corner, but also because of the limited room for macroeconomic manoeuvre in many countries. Large fiscal deficits constrain fiscal measures to stimulate growth. As the failed efforts of the United States Administration last spring to enact a temporary fiscal impulse showed, Governments find it very difficult to act in the fiscal arena. Concern over inflation has abated but remains a major determinant of macroeconomic policy. Furthermore, in a number of countries monetary policy has been progressively loosened and in some cases interest rates have already fallen to near historic lows.

The efficacy of stimulative measures taken so far, on the other hand, appears to have been blunted by a set of adverse factors. The correction of the huge asset price inflation of the 1980s in a number of countries took time and may not yet have been completed. The fall in asset prices has, however, constrained consumer spending and has been a major source of difficulty for

corporations and financial institutions, inhibiting investment. Consumer and business confidence remains stubbornly low and appears unimpressed by low interest rates. Large corporate layoffs resulting from overcapacity and the need for restructuring have only exacerbated the erosion of confidence.

Nevertheless, the scope for stimulus has not been exhausted. Interest rates remain relatively high in most European countries: this is largely a function of the desire to maintain relatively stable exchange rates and the reluctance of Germany, where inflation is still a major policy concern, to reduce interest rates except in small steps. The decline in interest rates following the widening of the mechanism's fluctuation band has been too modest. Rates need to come down considerably more than they have.

The most recent cut in Japanese interest rates is a welcome step. Combined with the Japanese Government's latest fiscal package, the measure should help stimulate activity. However, there is a considerable likelihood that these fiscal steps and the cut in interest rates will be inadequate to stimulate growth. Indeed, a possible tax reduction is already under consideration.

Confidence in the ability of the industrialized countries to generate and maintain robust growth with stability has been weakened by the unusual length of the present recession and stagnation. One question raised by recent developments is whether Governments can adequately coordinate their policies. The upheaval in the ERM in September 1992 and again in August 1993, for example, demonstrated the failure of policy coordination in a group of countries whose economies are already closely linked and where policy coordination has been considered relatively easy. The turmoil has clouded the prospects of European economic union envisaged in the Maastricht treaty. In particular, it exposed the inability of policy makers to take concerted action to stimulate growth when it was clearly necessary.

Improvement of policy coordination among the major industrialized countries remains an important task on the international agenda. The strengthening of multilateral surveillance of national macroeconomic policies by the International Monetary Fund (IMF) has long been recognized as central to the improvement of policy coordination, but this instrument has still to be fully used in practice.

Confidence in the continued growth of the world economy would be greatly strengthened by a speedy and successful conclusion of the Uruguay Round, which is already more than two years behind schedule. The completion of the Round is of more immediate importance to investor confidence than is often realized. As the International Chamber of Commerce stressed recently, "It is of vital importance to all of us that Governments negotiating in the Uruguay Round agree on a substantive market access package for goods and services within the coming few weeks if business confidence and the international trading system itself are not yet to be eroded." 1/

Economic transition in Eastern Europe and the successor States of the Soviet Union has given rise to complex social and political forces within each country that influence the nature and speed of the transition. In a number of countries a political stalemate in decision-making has been impeding reform. Nevertheless, external support for transition must remain high on the

international agenda. Significant measures of international financial assistance to support transition have been taken but more needs to be done. In a number of countries, better use of external assistance itself has remained contingent on decisive national action. Better coordination of domestic policy and international assistance measures along with better targeting of assistance and a greater readiness of industrialized countries to open their markets are still necessary. An increased flow of private capital will also largely depend on the prospects of success of the reforms.

The recent transfer of financial resources to developing countries reverses a long trend of net outflow and is one of the encouraging developments in international finance. The trend needs to be maintained. The recent inflow resulted in part from the large interest rate differential between the industrialized and the developing countries. A significant rise in interest rates in the former could adversely affect the flow. However, successful economic reforms in the recipient countries remain the most significant condition to sustain the flow.

While the global magnitude of the problem of external debt of the developing countries is no longer as critical as it was only recently, mainly because of significant progress in the restructuring of commercial bank debt, the problem remains serious for a large number of developing countries, especially in Africa. Debt service burdens are well above the capacity to pay in many African countries. Achieving a substantial reduction of the burden of official debt - two thirds of bilateral debt as suggested in the Trinidad Terms - remains high on the international agenda.

Concessional official finance remains a critical need for a large number of developing countries. A sharp decline of official development assistance (ODA) from non-OECD countries, and only a small increase from countries members of OECD have been accompanied by an increase in the number of countries eligible for such assistance. Efforts to increase the flow of ODA must therefore be strengthened. Yet recent budget appropriations in a number of countries have been disconcerting. The tenth replenishment of the International Development Association, the concessional lending arm of the World Bank, should be fully implemented. It is also essential to find an adequate successor facility to the Enhanced Structural Adjustment Facility of IMF, which expires in November 1993.

Economic reforms, adjustment and diversification efforts will be successful only if accompanied by a redirection of investments and appropriate domestic and external financing. The unprecedented number of low-income countries undertaking adjustment and reforming their economies, as well as expanding environmental and poverty eradication programmes, make necessary a much increased flow of official development assistance. Indeed, such an increase is today one of the most critical issues on the multilateral agenda.

Notes

1/ See GATT, News of the Uruguay Round of Multilateral Trade Negotiations (NUR 061, 30 August 1993).

Annex

STATISTICAL TABLES

Table A.I. Major industrial countries: quarterly indicators, 1992-1993

	1992 quarters				1993 quarters			
	I	II	III	IV	I	II a/	1992	1993 b/
Growth of gross domestic product c/								
Canada	0.0	0.0	0.4	2.5	3.8	3.4	0.8	3.2
France	3.4	0.3	0.0	-1.3	-2.8	0.0	1.4	-0.9
Germany, western	7.9	-0.5	-1.4	-3.4	-3.7	2.0	1.5	-2.1
Italy	2.4	0.0	-1.3	-1.7	-0.7	2.0	0.9	0.0
Japan	4.1	-0.9	-2.2	-0.8	2.7	-1.6	1.3	0.3
United Kingdom	-2.4	-0.4	1.4	1.4	1.6	2.4	-0.6	1.5
United States	3.5	2.8	3.4	5.7	0.8	1.9	2.6	2.7
Total	3.5	0.8	0.6	1.6	0.6	1.0	1.7	1.1
Unemployment rate d/								
Canada	10.7	11.2	11.5	11.5	10.9	11.3	11.2	11.1
France	10.1	10.3	10.3	10.4	10.6	11.5	10.3	11.7
Germany, western	4.5	4.7	4.8	5.1	5.5	5.9	4.8	5.7
Italy e/	9.9	10.0	10.1	9.3	9.1	..	10.5	10.5
Japan	2.1	2.1	2.2	2.3	2.3	2.4	2.2	2.5
United Kingdom	9.5	9.7	10.1	10.4	10.6	10.4	9.9	10.5
United States	7.2	7.4	7.4	7.2	6.9	6.9	7.3	7.0
Total	6.7	6.8	6.9	6.9	6.8	6.9	6.9	7.0
Consumer prices f/								
Canada	1.7	1.4	1.3	1.7	2.0	1.7	1.5	2.1
France	2.8	2.8	2.2	1.8	2.1	2.0	2.4	2.0
Germany, western	4.3	4.5	3.4	3.6	4.3	4.2	4.1	3.6
Italy	5.8	5.4	5.0	4.7	4.3	4.1	5.2	4.5
Japan	1.9	2.3	1.8	1.0	1.3	1.0	1.7	0.9
United Kingdom	4.1	4.2	3.6	3.1	1.8	1.3	3.7	2.7
United States	2.9	3.1	3.1	3.0	3.2	3.2	3.0	3.1
Total	3.0	3.2	2.8	2.6	2.7	2.6	2.9	2.7
Industrial production f/								
Canada	0.4	-0.4	-0.6	2.2	5.2	4.9	0.4	..
France	0.5	-0.3	-1.2	-2.6	-3.6	-4.2	-0.1	..
Germany, western	0.7	-0.7	-2.6	-4.8	-9.4	-8.2	-1.8	..
Italy	0.9	0.7	-0.7	-3.1	-4.3	-4.0	-0.6	..
Japan	-4.6	-6.1	-6.0	-7.9	-5.0	-4.3	-6.1	..
United Kingdom	-1.1	-0.2	-0.3	0.6	1.6	2.7	-0.3	..
United States	1.3	2.0	0.9	2.2	2.5	1.6	1.5	..
Total	-0.8	-1.3	-2.0	-2.6	-2.2	-2.0	-1.6	..

Source: UN/DESIPA, based on data of IMF, OECD and national authorities.

a/ Partly estimated.

b/ Forecast.

c/ Percentage change in seasonally adjusted data from preceding quarter, expressed at annual rate (total is weighted average with weights being 1991 GDP valued at 1988 prices and exchange rates).

d/ Percentage of total labour force; seasonally adjusted data as standardized by OECD.

e/ From the fourth quarter of 1992, data are based on new definitions and therefore not comparable with earlier figures.

f/ Percentage change in quarter relative to same quarter of preceding year.

Table A.II. Developed market economies: rates of growth of real GDP, 1983-1993

(Annual percentage change a/)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992 b/	1993 c/
All developed market economies	2.7	4.4	3.4	2.8	3.3	4.4	3.4	2.4	* 0.8	1.6	1.0
Major industrialized countries	2.9	4.5	3.4	2.8	3.3	4.6	3.3	2.4	* 0.8	1.7	1.1
Canada	3.2	6.3	4.8	3.3	4.3	4.9	2.5	-0.2	-1.8	0.9	3.2
France	0.7	1.3	1.9	2.5	2.3	4.5	4.3	2.5	0.7	1.6	-0.9
Germany	1.9	3.1	1.8	2.2	1.5	3.7	4.0	4.9	* 1.2	2.0	-1.3
Italy	1.0	2.7	2.6	2.9	3.1	4.1	2.9	2.1	1.3	0.9	0.0
Japan	2.8	4.3	5.2	2.6	4.3	6.2	4.8	4.8	4.1	1.3	0.3
United Kingdom	3.7	2.3	3.8	4.1	4.8	4.4	2.1	0.5	-2.2	-0.5	1.5
United States	3.9	6.2	3.2	2.9	3.1	3.9	2.5	1.0	-0.7	2.6	2.7
Other indutrialized countries	1.4	3.4	2.8	2.4	3.2	3.6	3.7	2.5	0.6	0.8	0.2
Memo item											
Western Europe	1.7	2.5	2.5	2.8	2.8	3.9	3.5	2.8	* 0.6	1.0	-0.3
European Community	1.7	2.4	2.4	2.8	2.9	4.1	3.6	2.9	* 0.8	1.2	-0.3
Other	2.2	3.0	3.2	2.5	2.5	2.9	3.3	2.0	-0.7	-0.3	-0.6

Source: UN/DESIPA.

* Indicates discontinuity in the series: from 1991, Germany includes eastern Länder.

a/ Data for country groups are weighted averages, where weights for each year are GDP valued at 1988 prices and exchange rates.

b/ Partly estimated.

c/ Forecast, based on Project LINK.

Table A.III. Economies in transition: rates of growth of GDP, 1983-1993

(Annual percentage change a/)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992 b/	1993 c/
Economies in transition	4.2	3.5	2.0	3.5	2.6	4.5	2.1	-6.3	* -9.0	-16.8	-9.7
Eastern Europe	4.2	4.6	2.6	3.1	2.3	2.7	0.0	-11.8	* -12.0	-6.2	-0.3
Bulgaria	3.4	3.4	2.7	4.2	6.1	2.6	-1.4	-9.1	-16.7	-13.0	-6.0
Czechoslovakia	2.4	2.1	2.2	1.8	0.8	2.6	1.3	-4.7	-15.9	-7.1	
Czech Republic											1.0
Slovakia											-6.5
German Democratic Republic	4.0	5.4	5.5	3.9	3.3	3.1	2.4	-25.1	-	-	-
Hungary	0.7	2.7	-0.3	1.5	3.8	2.7	3.8	-4.0	-11.9	-5.0	-1.5
Poland	5.6	5.6	3.6	4.2	2.0	4.4	0.2	-12.0	-7.6	0.0	4.0
Romania	6.1	5.9	-0.1	2.3	0.8	-0.5	-5.8	-7.4	-13.7	-15.4	-6.0
Former Soviet Union and successor States	4.3	3.0	1.7	3.6	2.8	5.3	3.0	-4.0	-8.0	-20.0	-13.5

Source: UN/DESIPA and ECE.

* Indicates discontinuity in the series.

a/ Country group aggregates are averages weighted by GDP in 1988 dollars (see World Economic Survey, 1992 (United Nations publication, Sales No. E.92.II.C.1 and corrigenda), pp. 181-182, for methodology).

b/ Partly estimated.

c/ Forecast.

Table A.IV. Developing countries: rates of growth of real GDP, 1983-1993

(Annual percentage change)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992 a/	1993 b/
All developing countries c/	1.8	4.1	3.5	3.8	4.0	4.4	3.5	3.4	3.4	4.9	5.5
Latin America	-2.6	3.8	3.6	4.2	3.0	0.7	1.1	0.1	2.9	2.2	3.4
Net energy exporters	-3.3	2.6	2.1	-0.2	2.2	3.1	0.7	4.7	4.8	3.7	2.1
Net energy importers	-2.3	4.4	4.4	6.6	3.3	-0.5	1.4	-2.3	1.8	1.3	4.2
Africa	1.4	0.8	5.0	1.9	0.2	2.3	3.0	3.0	2.3	1.5	2.0
Net energy exporters	2.2	1.4	6.3	0.8	-0.7	1.1	3.3	3.4	2.7	2.5	1.9
Net energy importers	-0.1	-0.2	2.4	4.0	2.0	4.6	2.4	2.2	1.4	-0.4	2.2
West Asia	-0.6	-1.3	-3.6	-3.1	-0.8	0.0	3.2	1.9	-0.1	6.6	5.3
South and East Asia	6.0	5.7	3.6	6.2	6.9	8.5	6.1	6.4	5.3	5.1	5.2
China	10.2	14.5	13.0	7.8	9.4	10.9	3.6	5.2	7.7	12.8	13.0
Mediterranean	1.0	3.7	2.8	5.5	1.1	0.8	0.3	1.1	-7.9	-5.2	0.8
Memo items											
Major developing economies d/											
Brazil	-3.4	5.3	8.0	7.6	3.4	0.1	3.2	-3.8	0.9	-0.9	4.0
India	5.4	4.9	4.5	4.8	4.5	9.6	5.2	5.5	2.0	4.0	4.0
Republic of Korea	9.5	7.9	5.1	12.0	11.1	11.5	6.1	9.0	8.4	4.8	4.5
Mexico	-4.2	3.6	2.6	-3.8	1.8	1.4	3.1	4.4	3.6	2.6	2.0
Iran (Islamic Republic of)	13.0	0.2	-1.5	-8.0	-2.5	-2.0	4.0	10.0	6.0	6.0	4.5
Taiwan Province of China	8.5	10.6	5.0	11.6	12.3	7.3	7.6	5.0	7.2	6.6	6.4
Indonesia	4.5	4.2	1.9	3.0	3.6	6.5	7.4	7.4	6.6	5.7	6.4
Saudi Arabia	-21.0	-4.8	-9.1	13.4	-1.4	7.6	0.2	9.0	10.0	5.0	4.6
Argentina	2.6	2.4	-4.4	6.1	2.1	-2.8	-4.6	0.4	8.9	8.7	5.5
Turkey	3.4	5.9	5.1	7.5	2.2	2.2	-0.4	9.2	0.7	5.3	5.0
Thailand	5.8	6.0	4.1	3.5	7.1	13.2	12.2	10.0	8.0	7.4	7.7
15 heavily indebted countries e/	-2.7	2.7	3.4	4.1	2.4	1.2	1.4	0.0	1.9	0.9	2.8
Sub-Saharan Africa (excluding Nigeria)	0.6	1.2	1.9	2.6	0.6	2.9	1.6	1.3	-0.0	0.2	1.9

Source: UN/DESIPA.

a/ Preliminary estimates.

b/ Forecast.

c/ Covers 92 countries that account for 98 per cent of the population of all developing countries.

d/ Listed in descending order of their share in world GDP.

e/ Argentina, Bolivia, Brazil, Chile, Colombia, Côte d'Ivoire, Ecuador, Mexico, Morocco, Nigeria, Peru, the Philippines, Uruguay, Venezuela and the former Yugoslavia.

Table A.V. Developed market economies: unemployment rates, 1983-1993 a/

(Percentage of total labour force)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992 b/	1993 c/
All developed market economies	8.4	7.8	7.7	7.6	7.2	6.6	6.1	6.0	6.7	7.4	7.7
Major industrialized countries	8.1	7.3	7.2	7.1	6.7	6.1	5.7	5.6	6.3	6.9	7.0
Canada	11.8	11.2	10.4	9.5	8.8	7.7	7.5	8.1	10.2	11.2	11.1
France	8.3	9.7	10.2	10.4	10.5	10.0	9.4	8.9	9.4	10.3	11.7
Germany	7.7	7.1	7.2	6.4	6.2	6.2	5.6	4.9	4.4	4.8	5.7
Italy	8.8	9.4	9.6	10.5	10.9	11.0	10.9	10.3	9.9	10.5	10.5
Japan	2.6	2.7	2.6	2.8	2.8	2.5	2.3	2.1	2.1	2.2	2.5
United Kingdom	12.4	11.7	11.2	11.2	10.3	8.5	7.1	6.8	8.7	9.9	10.5
United States	9.5	7.4	7.1	6.9	6.1	5.4	5.2	5.4	6.6	7.3	7.0
Other industrialized countries	9.6	10.2	10.3	9.9	9.6	9.1	8.1	7.9	8.6	9.8	10.9
Memo items											
Western Europe	9.4	9.8	9.9	9.8	9.6	9.0	8.2	7.7	8.1	9.0	10.2
European Community	10.1	10.5	10.6	10.6	10.3	9.7	8.8	8.2	8.5	9.4	10.4
Other	3.5	3.3	3.2	3.2	3.0	2.9	2.6	2.8	4.0	5.8	8.1

Source: UN/DESIPA, based on data of OECD.

a/ For the 7 countries shown and 10 others, unemployment data are standardized by OECD for comparability among countries and over time, in conformity with the definitions of the International Labour Office (see OECD, Standardized Unemployment Rates: Sources and Methods (Paris, 1985)); national definitions and estimates are used for other countries.

b/ Partly estimated.

c/ Forecast, based on Project LINK.

Table A.VI. Developed market economies: consumer price inflation, 1983-1993 a/

(Annual percentage change)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992 b/	1993 c/
All developed market economies	4.8	4.8	4.2	2.5	3.1	3.4	4.6	5.2	4.5	3.2	2.9
Major industrialized countries	4.3	4.4	3.8	1.9	2.7	3.1	4.4	4.9	4.2	2.9	2.7
Canada	5.9	4.3	4.0	4.2	4.3	4.1	5.0	4.8	5.6	1.5	2.1
France	9.6	7.5	5.7	2.5	3.3	2.7	3.5	3.4	3.2	2.4	2.0
Germany	3.4	2.4	2.2	-0.1	0.2	1.3	2.8	2.7	3.5	4.1	3.6
Italy	14.6	10.9	9.2	5.8	4.7	5.1	6.3	6.4	6.4	5.2	4.5
Japan	1.8	2.3	2.0	0.6	0.1	0.7	2.3	3.1	3.3	1.7	0.9
United Kingdom	4.5	5.0	6.0	3.4	4.2	4.9	7.8	9.5	5.9	3.7	2.7
United States	3.2	4.3	3.5	1.9	3.7	4.0	4.8	5.4	4.3	3.0	3.1
Other industrialized countries	8.3	7.2	6.9	6.0	5.4	5.2	6.2	7.0	6.2	5.0	4.5
Memo items											
Western Europe	7.5	6.5	5.7	3.3	3.3	3.7	5.2	5.7	5.2	4.3	3.6
European Community	7.8	6.6	5.8	3.3	3.2	3.6	5.3	5.7	5.1	4.4	3.7
Other	5.8	5.7	5.0	3.0	3.5	4.0	4.5	6.2	5.6	3.1	3.4

Source: UN/DESIPA, based on IMF, International Financial Statistics.

a/ Data for country groups are weighted averages where weights for each year are consumption expenditure for the year valued at 1988 prices and exchange rates.

b/ Partly estimated.

c/ Forecast.

Table A.VII. Major developed market economies: interest rates, 1983-1993

(Percentage)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1992 2nd half	1993 1st half
						Short-term interest rates a/						
Canada	9.1	10.1	9.8	8.2	8.5	10.4	12.1	11.6	7.4	6.8	6.7	5.7
France	12.5	11.7	9.9	7.7	8.0	7.5	9.1	9.9	9.5	10.4	10.8	10.0
Germany	5.4	5.5	5.2	4.6	3.7	4.0	6.6	7.9	8.8	9.4	9.2	8.3
Italy	18.4	17.3	15.3	13.4	11.5	11.3	12.7	12.4	12.2	14.0	15.5	11.9
Japan	6.4	6.1	6.5	4.8	3.5	3.6	4.9	7.2	7.5	4.6	5.0	3.4
United Kingdom	9.1	7.6	10.8	10.7	9.7	10.3	13.9	14.7	11.8	9.6	8.9	5.7
United States	9.1	10.2	8.1	6.8	6.7	7.6	9.2	8.1	5.7	3.5	3.2	3.0
						Long-term interest rates b/						
Canada	11.8	12.8	11.0	9.5	10.0	10.2	9.9	10.9	9.8	8.8	8.4	8.2
France	13.6	12.5	10.9	8.6	9.4	9.1	8.8	10.0	9.1	8.6	8.5	7.5
Germany	7.9	7.8	6.9	5.9	5.8	6.1	7.1	8.9	8.6	8.0	7.8	6.6
Italy	18.3	15.6	13.7	11.5	10.6	10.5	11.6	11.9	11.4	11.9	12.7	11.1
Japan	7.4	6.8	6.3	4.9	4.2	4.3	5.1	7.4	6.5	4.9	4.5	4.1
United Kingdom	10.8	10.7	10.6	9.9	9.5	9.4	9.6	11.1	9.9	9.2	9.0	8.5
United States	11.1	12.5	10.6	7.7	8.4	8.9	8.5	8.6	7.9	7.0	6.7	6.0

Source: UN/DESIPA, based on IMF, International Financial Statistics, and OECD, Economic Outlook.

a/ Money market rates.

b/ Yield on long-term government bonds.

Table A.VIII. Indices of prices of non-fuel primary commodities exported by developing countries, 1983-1993

(1985 = 100)

	Food	Tropical beverages	Vegetable oil-seeds and oils	Agri-cultural raw materials	Minerals and metals	Combined index		Prices of manufac-tures a/	Real prices of com-modities b/	Memo item: crude petroleum c/
						Dollar	SDR			
1982	131	92	90	103	105	111	102	107	104	121
1983	138	96	107	110	113	118	112	103	114	108
1984	116	110	144	111	105	114	112	100	114	102
1985	100	100	100	100	100	100	100	100	100	100
1986	110	124	62	102	95	104	90	120	87	55
1987	117	81	73	119	113	107	84	135	79	62
1988	152	82	96	129	164	135	102	144	94	49
1989	161	70	85	129	164	135	107	143	94	59
1990	151	62	74	137	149	127	95	158	80	75
1991	141	57	80	129	135	119	88	158	75	62
1992	138	49	86	125	131	115	83	164	71	63
1993 d/	138	47	84	124	119	112	81	159	71	59
1992 I	141	50	88	123	129	116	85	160	72	57
II	138	46	88	123	132	116	84	162	72	65
III	143	46	83	128	138	118	83	170	70	65
IV	131	52	83	127	125	112	81	163	69	65
1993 I	138	49	85	126	127	114	83	158	72	59
II	138	46	82	122	110	110	79	160	69	60

Source: UNCTAD, Monthly Commodity Price Bulletin, and United Nations, Monthly Bulletin of Statistics.

a/ Unit value of exports of manufactures from developed market economies. The base of the original index has been shifted to 1985.

b/ Dollar index deflated by unit values of manufactured exports of developed market economies.

c/ OPEC oil price, which is the average spot price of a basket of seven OPEC country crudes (Saharan Blend, Minas, Bonny Light, Arab Light, Dubai, T. J. Light and Isthmus).

d/ January-June 1993.